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C O N F I D E N T I A L SECTION 01 OF 04 BEIJING 004062

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DEPT PLS PASS TO DEPT OF TREASURY OIA FOR TTYANG AND
CWINSHIP

E.O. 12958: DECL: 10/27/2033

TAGS: [PARM](#) [PREL](#) [EFIN](#) [CH](#) [PK](#)

SUBJECT: VFM HE YAFEI AND AMBASSADOR DISCUSS FINANCIAL
SITUATION, PAKISTAN, HUMAN RIGHTS, NONPRO, TIBET, TAIWAN
ARMS DEAL

Classified By: Ambassador Clark T. Randt, Jr.
Reasons 1.4 (b/d).

SUMMARY

1. (C) Vice Foreign Minister He Yafei expressed to the Ambassador October 27 his belief that the United States and China should hold consultations before the November 15 G-20 summit, in part to ensure that European-sponsored proposals for an overhaul of the global financial system are tempered to take into account the "real economy" concerns of developing nations. He portrayed China as being for less "radical" reforms than the EU and as the voice for the concerns of less developed countries (LDCs) at the summit, and expressed concern that the financial crisis is spreading to the "real economy" in many countries. He expressed concern over the recent announcement of U.S. arms sales to Taiwan, adding that a rumored sale of F-16's would be particularly problematic. He reiterated the Chinese demand that the ethnic Uighur PRC citizens held in Guantanamo be repatriated to China or not released. On Pakistan, VFM He insisted that Chasma III and IV are grandfathered under existing Nuclear Suppliers Group (NSG) agreements. The Ambassador raised human rights issues as well as nonproliferation concerns. Other issues discussed included Iran, North Korea, U.S. participation in the Shanghai Expo, and diplomatic facilities issues. END SUMMARY.

Financial Crisis Tops ASEM Agenda

2. (C) At an October 27 lunch hosted by the Ambassador, VFM He said that the unfolding international financial crisis was the most important topic of discussion at the October 24-25 ASEM summit in Beijing. He stressed that Asian countries are very worried about the spreading effects of the financial crisis and the potential to impact their "real economies." Developing Asian countries have been alarmed at how quickly capital has fled their economies. The statement from the ASEM summit tried to boost confidence among market actors that government is responding, especially given that, according to He, 60 percent of world GDP is in the Asian and European continents.

PRC Suspicious of Overhaul, Concerned for LDCs

3. (C) VFM He expressed appreciation for USG efforts to deal with the crisis, and said that President Hu is looking forward to attending the November 15 G-20 summit. He cautioned that European countries, especially France, may

push for "drastic changes" in the international financial system. China in general views the goals of the summit as the United States does, he added, with "some changes" to the existing system. He questioned the need for a "total overhaul" of the international financial system.

14. (C) VFM He stressed the importance of considering the needs of less developed countries (LDCs) at the summit. He said that China has been hearing concerns from Asian and African nations that as the major powers focus on revamping the financial system, their needs will be overlooked.

China Seeks Bilateral Consultations Ahead of Summit

15. (C) VFM He requested that the United States and China meet bilaterally before the drafting of the G-20 summit statement begins in order to take into account the views of less developed countries. He suggested a round of "very important" consultations before the end of October via telephone or in Beijing if there are any high-level U.S. visitors coming through. He said he hopes to use a bilateral discussion to exchange thoughts on expectations of the summit and how to strike a balance between revamping the financial system and considering the needs of developing countries. He stressed the United States and China have a shared interest and that China is "not siding" with the Europeans on the issue. He stressed the need for a "realistic" approach and avoiding ideology in moving forward. The Ambassador noted that the President is not attending any bilateral meetings during the summit.

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16. (SBU) VFM He said he likely would act as the Chinese Sherpa for the G-20 summit. (Note: Separately, the MFA told us the State Council has not yet made a final decision on who will act as Sherpa.)

17. (C) VFM He said he looks forward to more detailed information on the G-20 summit as soon as it is available, including agendas, meeting schedules, to allow for time for planning. He wondered aloud if the President-elect's staffers would be attending the summit, noting his hope that the new administration would follow up with a second summit early in 2009 to ensure momentum on the process is maintained.

18. (C) VFM He said he is looking forward to the various bilateral visits currently on the calendar, including a planned visit to Beijing by Treasury Secretary Paulson for the Strategic Economic Dialogue, the next round of the Senior Dialogue in December, and events surrounding the commemoration of 30 years of U.S.-China diplomatic relations early in 2009.

SED Must Go On

19. (C) VFM He asked if the next round of the Strategic Economic Dialogue (SED) would go forward given the unfolding financial crisis. The Ambassador stressed that it would. It is especially important to continue the development of the 10-year Framework for Cooperation on Energy and the Environment. It was also critical for China to liberalize its financial services sector, the Ambassador stressed, noting that it would be a mistake to link the financial crisis to China's reform of its financial services sector. VFM He cautioned that while there may be no direct link between the two, the public may see a link between such liberalization and increased vulnerability in the real economy in China. The Ambassador cautioned He that the next U.S. Administration will be watching the SED carefully to see if it is worth continuing.

Taiwan Arms Sales

¶10. (C) VFM He expressed continuing PRC unhappiness over the October 3 announcement of U.S. arms sales to Taiwan, noting the issue has negatively affected U.S.-China relations and exchanges. Additionally, the Chinese are concerned that some in Washington are advocating the sale of F-16 C/D fighter planes to Taiwan. VFM He called upon the USG not to authorize such a sale and to advise the next Administration of PRC sensitivities regarding such a sale.

¶11. (C) In response, the Ambassador made clear that the United States' longstanding policy of selling defensive weapons to Taiwan in accordance with the three U.S.-China Communiques and the Taiwan Relations Act remains unchanged. He urged China to reduce its build-up of arms aimed at Taiwan across the Strait.

Shanghai Expo 2010

¶12. (U) VFM He expressed Chinese desire to see the United States represented with a pavilion at the 2010 Shanghai Expo. Noting it was hard to imagine such an international event without U.S. representation, he asked what the problem is. The Ambassador made clear the problem is not a lack of USG interest, but rather a lack of private sector funding, and undertook to report VFM He's concerns. VFM He noted that Shanghai would be helpful and flexible in assisting U.S. efforts to have a pavilion.

U.S. Sanctions on PRC Companies

¶13. (C) VFM He complained about recently announced U.S. proliferation-related sanctions against three PRC firms, which came without warning or prior consultations, according to VFM He. Such actions by the USG create obstacles to U.S.-China nonproliferation cooperation, VFM He said. In response, the Ambassador stressed the importance of continuing the U.S.-China nonproliferation dialogue. Due to the unwillingness of MFA Arms Control and Disarmament

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Department officials to meet with EmbOffs since the October 3 announcement of arms sales to Taiwan, the Ambassador took the opportunity of this meeting to pass two proliferation-related nonpapers (see septel).

Guantanamo Uighurs

¶14. (C) VFM He expressed the PRC view that the PRC national ethnic Uighurs being held in Guantanamo, Cuba, should either be returned to China or continued to be held by the United States, not set free. The Ambassador noted VFM He's concern as well as the importance of continuing bilateral counterterrorism cooperation.

Human Rights

¶15. (C) The Ambassador raised several human rights cases, urging the Chinese to take concrete action to address U.S. concerns. He noted in particular the cases of imprisoned rights activists Hu Jia, Chen Guangcheng and Gao Zhisheng, Internet dissidents Yang Zili, Wang Xiaoning and Shi Tao, and Pastor Zhang Mingxuan and his family. On the latter case, the Ambassador urged the Chinese Government to address concerns that Zhang has been detained, his wife evicted from their apartment and their sons beaten with iron bars. The Ambassador also asked VFM He to inquire on progress in the review by the local procuratorate in the death of American Citizen Darren Russell. VFM He asked the Embassy to provide additional details on these cases and indicated he would follow up on the U.S. requests.

¶16. (C) The Ambassador also urged that the Chinese Government take advantage of upcoming talks with representatives of the Dalai Lama to achieve concrete results. See septel.

Diplomatic Facilities Issues

¶17. (C) COCA II: Stressing the importance of reaching agreement on a new Conditions of Construction Agreement (COCA II), the Ambassador noted the lack of agreement is holding up USG construction of new consular facilities in Guangzhou. A major stumbling block is over PRC insistence on intrusive inspections of diplomatic shipments in support of the construction project. The Ambassador noted that, as China had remodeling and construction plans for its diplomatic facilities in the U.S., cooperation is a win-win proposition. We are only asking to continue the arrangement which allowed our respective new embassies to be built.

¶18. (U) Sale of Er Ban: The Ambassador urged the Chinese to remove obstacles to the U.S. sale of Embassy property to the UK.

¶19. (U) NEC lighting and guards: The Ambassador requested that the MFA do its part to support Embassy requests for improved security, to include lighting around the perimeter of the New Embassy Compound. VFM He promised to rectify any shortfall in security personnel and to look into getting Beijing City to improve perimeter lighting.

Pakistan

¶20. (C) The Ambassador urged China to join U.S. efforts to urge Pakistan to combat extremism and terrorism, especially given the potential dangers from rising instability. He noted President Zardari's recent visit to China and expressed U.S. concern that Chinese support for Chasma III and IV nuclear power plants would violate Chinese commitments under the Nuclear Supplies Group (NSG) framework.

PRC: Chasma III and IV Do Not Violate NSG Agreement

¶21. (C) VFM He responded that combating instability and terrorism in Pakistan are in the common interest of the United States and China and stressed the importance of a viable economy in maintaining stability. Pakistan is in negotiations with the IMF for fiscal support, and the United States and China should work together to help them, but He cautioned that we cannot force Pakistan to take steps that

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would undermine its internal political unity. He asserted that while China offered support to Pakistan for Chasma III and IV, these projects are grandfathered under the existing NSG agreement as a continuation of the original Chasma project and do not represent new projects. He alleged that the USG interpretation of China's NSG commitments in this regard is wrong and cautioned that without further development on the Chasma project, Pakistan would have to import fuel to meet its electricity needs, putting further pressure on the budget.

Iran/North Korea

¶22. (C) The Ambassador urged VFM He to send AFM Liu Jieyi to participate in the next round of the P5-plus-1 talks on the Iranian nuclear issue to be held in France in early November. He noted recent progress on the Six-Party Talks and expressed hope for further progress. He also sought VFM He's views on the health of DPRK leader Kim Jong-Il. VFM He disavowed any knowledge of Kim's health, but noted that the PRC Embassy in Pyongyang has reported that despite the recent

rumors the situation remains normal and that the government
is in "full control."
RANDT